



INFORMED BUDGETEER

CBO BASELINE BUDGET & DEFICIT PROJECTIONS - 1997-2007												
(By Fiscal Year, In Billions of Dollars)												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Outlays	1,560	1,632	1,687	1,781	1,877	1,948	2,049	2,145	2,252	2,381	2,492	2,611
Revenues	1,453	1,507	1,567	1,634	1,705	1,781	1,860	1,943	2,033	2,127	2,227	2,333
Deficit	107	124	120	147	171	167	188	202	219	254	266	278

SOURCE: Congressional Budget Office; NOTE: CBO’s baseline assumes that current budgetary policies do not change and that discretionary spending equals statutory limits in 1998, including inflation adjustment thereafter.

CBO ECONOMIC PROJECTIONS FOR CALENDAR YEARS 1997-2007												
	Estimate	Forecast		Projected								
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP (% change)	2.3	2.3	2.0	2.2	2.1	2.1	2.1	2.0	2.0	2.0	1.9	1.9
CPI-U (% change)	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.1
Unemployment Rate(%)	5.4	5.3	5.6	5.8	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-month T-bill (%)	5.0	5.0	5.0	4.9	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
10-year T-note(%)	6.4	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2

SOURCE: Congressional Budget Office.

THE ECONOMIC AND BUDGET OUTLOOK

- The Congressional Budget Office released its Economic and Budget Outlook: Fiscal Years 1998-2007 on Tuesday, January 28. In addition, CBO Director June O’Neill testified before the Budget Committee and reviewed the findings of that report.
- **Economic Outlook:** CBO forecast assumed no significant change in the course of the economy, for the short term.
- Real GDP is expected to grow at an average annual rate of 2.2% in 1997 and 1998, and then average 1.9% a year from 1999 to 2007.
- Interest rates for the first two years of the forecast were also seen as stable at the 1996 rate of 5%, and are then expected to decline to 4.9% in 1999, then to 4.7% in 2000, stabilizing at 4.6% in the years 2001 to 2007.
- Beginning in 1997, the unemployment rate is expected to rise gradually from its current 5.3% to 6.0% in 1998 and remain there until 2007.
- If Congress and the President enact a balanced budget plan, CBO projects that interest rates would decline by 0.7 percentage points by 2000.
- **Budget Outlook:** The baseline deficit projections for the FY 1997- FY 2007 period show a reversal of the current four-year trend of declining deficits. The FY 1997 deficit is expected to be \$124 billion, which is up from an actual \$107 billion in FY 1996. Assuming that discretionary spending grows with inflation after 1998, the deficit is expected to be \$188 billion in FY 2002 and climb to \$278 billion in FY 2007.
- These projections are one-third lower than the 1996 deficit estimates. The report stated there were four reasons for this change: lower estimates of the growth of spending of Medicare and Medicaid (see last week’s Budget Bulletin, No. 2), enactment of welfare reform legislation, higher projected revenues (particularly in the near term) and lower debt-service costs.
- In order to reach balance in 2002 using CBO estimates, Congress and the President would need to enact \$154 billion in policy savings.
- CBO now projects that the fiscal dividend which would occur as a result of balancing the budget would be \$34 billion. This current

estimate is smaller than last May’s estimate not only because the current baselines are lower but also because a balanced budget plan would start later than previously assumed.

- Director O’Neill cautioned that although the reduction in the baseline deficits are encouraging, balancing the budget by 2002 will still be a difficult task. A smaller fiscal dividend, shorter time frame and increasing difficulty finding savings in discretionary programs will heighten the task.
- In addition, Director O’Neill emphasized that CBO’s projections through 2007 do not address the detrimental effects on the deficit of the retiring baby-boom generation and continuing growth in per person health care after 2010.

BBA Excluding Social Security = \$295 Billion in Additional Spending Cuts

- Some Senators are proposing to exclude Social Security, and the trust funds’ current surpluses, from the Balanced Budget Amendment (BBA), effectively forcing deeper spending cuts to reach a balanced budget by 2002 compared to the Judiciary Committee-reported BBA.
- If Social Security’s surplus of \$104 billion in 2002 is excluded from the BBA, the deficit to be eliminated increases from \$154 billion to \$258 billion.
- Assuming no tax increases and no cuts in Social Security or welfare, the proposal to exclude Social Security would force an additional \$295 billion in spending cuts over the period 1998 to 2002 to reach balance in 2002.

ADDITIONAL SPENDING REDUCTIONS*	
(Needed to balance if Social Security excluded; \$ in billions)	
1998-2002	
Medicare	75
Medicaid	35
Civil service, military rtrmnt. & other entitlements	28
Education, envrnmnt., crime & other disc. spending	158
Total Additional Cuts	295

MEDICARE: THE NEXT DECADE

- CBO data show that the current range of savings levels being bandied about is insufficient to meet any objective ten-year test of financial sufficiency for the Medicare *program*. Last year the

President's stated goal was to keep the part A trust fund solvent for "more than a decade." Last year, that meant keeping the assets greater than zero through the end of 2006.

- One year has passed since that debate. Now "trust fund solvency for more than a decade" means you must have assets greater than zero through the end of 2007. It is much harder to meet this goal than it was last year, for two simple reasons: Medicare part A is 9.7% bigger this year than last year; and there are fewer assets in the trust fund this year, so they will be diminished in a shorter time period.
- The financial condition of the part A trust fund is a critically important measure of Medicare's health. At the same time, it is an imperfect measure. Any savings figure derived for measuring the health of the part A *trust fund* applies to only 65% of the Medicare *program*. Medicare part B is \$74.6 billion in 1997, and at 9.1% per year over the next decade, is growing faster than part A at 7.7% per year. Focusing solely on the part A trust fund also encourages shameless gimmickry such as home health transfer shell games.
- CBO has calculated a hypothetical part A spending path by reducing the baseline growth rate for part A spending by an equal number of percentage points in each year. Since there is no similar metric for the health of Medicare part B, the *Bulletin* has used CBO data to calculate savings streams under two alternative assumptions: assume savings are split 65/35 between A and B, the same split as spending (for part A and B); and assume savings are split 50/50 between A and B, since B is growing faster than A.

CUMULATIVE CHANGE IN OUTLAYS (\$ in Billions)			
	FY 98-02	FY 03-07	FY 98-07
Part A savings	-103	-355	-458
Part B savings (65/35)	-55	-191	-247
Total savings (65/35)	-158	-546	-705
Part B savings (50/50)	-103	-355	-458
Total Savings (50/50)	-206	-710	-916

- These figures do not, of course, represent any specific policy. More importantly, these figures **underestimate** what you would actually have to do in the first five years. Reducing outlays by an equal number of percentage points in each year results in a savings stream that is very heavily back loaded. Only 23% of the total savings occur in the first five years. So if you were actually making policy changes to meet this test, you would need much more than what is shown here in our five year budget window. Yet the Administration claims it can save Medicare for a decade with only \$100 billion in savings over the next five years. The *Bulletin* anxiously awaits CBO ten-year scoring of the President's Medicare plan.

REMEMBER THE BEA CAPS?

- It's understandable if you don't, but you might want to get reacquainted. Informed budgeteers will recall that the Budget Enforcement Act (BEA) caps on discretionary spending were extended in 1993 through 1998. No one has paid much attention to the statutory caps, because the caps set in congressional budget resolutions have been about \$15 billion to \$30 billion lower for the past two years than the statutory caps.
- CBO's annual *Economic and Budget Outlook*, released this week, includes a table asking: "How tight are the discretionary caps?" Given CBO's new estimate of the discretionary caps for 1998, even if the Congress and the President agreed to appropriate the exact amount for 1998 as in 1997 (\$509 b), the resulting outlays would exceed the BEA cap by \$4 billion.
- How could this happen? While appropriations provided for 1997 were about \$25 billion under the BEA cap for BA, they were more than \$10 billion over the BA cap set in the budget resolution. The Congress, responding to the President's demands for increased funding, used one-time savings such as spectrum auctions to try to make spending appear to fit under the resolution cap and avoid points-of-order. Yet little of the additional appropriations provided

in 1997 actually will outlay this year, with much of it being spent in 1998. Assuming a freeze in discretionary spending total outlays will still exceed the 1998 BEA outlay cap.

- OMB, of course, could come up with a different estimate of the caps for 1998 when the President's budget is released on February 6. And because OMB's estimate is the only relevant one for purposes of calculating whether a sequester is necessary, we will have to wait and see what the outlook is for being able to just freeze appropriations, much less whether there is any room to increase them under the BEA.

FREEZE IN 1998 LEAVES OUTLAYS OVER CAPS (\$in Billions)			
		1997	1998
CBO Freeze Baseline	BA	507.5	509.3
	OT	546.8	547.3
CBO Estimate of BEA Caps	BA	532.0	526.7
	OT	551.0	543.3
1997 Budget Res. Caps	BA	497.4	493.7
	OT	538.6	527.0
Amount Freeze is over/under:			
BEA Cap	BA	-24.5	-17.4
	OT	-4.2	4.0
1997 Budget Resolution Cap	BA	10.2	15.6
	OT	8.2	20.4

CALENDAR: "GETTING OVER THE BRIDGE"

February 4: Senator Domenici will introduce the "Biennial Appropriations and Budget Act".

February 5: **SBC Hearing: Education and the Budget:** Acting Deputy Secretary of Education, Mike Smith, Dr. Eric Hanushek, University of Rochester, Dr. Caroline Minter Hoxby, Harvard and other witnesses. Dirksen 608; 10:00 am.

February 6: **President Clinton releases his FY 1998 Budget.**

February 6: SBC Majority Staff will release Instant Review of President's Budget, COB.

February 7: **SBC Hearing: President's FY 1998 Budget:** OMB Director, Frank Raines. Dirksen 608; 10:00 am.

February 10: **SBC Hearing: President's FY 1998 Budget:** Secretary of the Treasury, Robert Rubin. Dirksen 608; 2:00 p.m.

February 13: **SBC Hearing: Biennial Appropriations and Budgets.** Dirksen 608; 10:00 am.

February 27: **SBC Hearing: President's FY 1998 Budget:** Secretary of Defense, William Cohen and Joint Chief of Staff, John Shalikashvili. Dirksen 608; 10:00 am. (Tentative.)

★BUDGET COMMITTEE WEB SITE★

The Senate Budget Committee has a new web site. In addition to the *Bulletin* being on the world wide web, you can now find analysis, hearing schedules, the Congressional Budget Process Committee Print, staff listing, press releases, major documents, legislation and more. You can find all of this at <http://www.senate.gov/~budget/>.